DOCUMENT RESUME

ED 461 547 SO 028 445

TITLE	Workers in an Integrating World. World Development Report, 1995. Executive Summary.
INSTITUTION	World Bank, Washington, DC.
ISBN	ISBN-0-8213-2900-6
PUB DATE	1995-00-00
NOTE	27p.; Some charts and graphs may not reproduce well. Full report published by Oxford University Press.
AVAILABLE FROM	The International Bank for Reconstruction and Development/The World Bank, 1818 H Street, NW, Washington, D.C. 20433.
PUB TYPE	Numerical/Quantitative Data (110) -- Reports - Descriptive (141)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Demography; *Developing Nations; Economic Factors; Foreign Countries; Foreign Policy; *Futures (Of Society); Global Education; *Human Capital; Immigrants; *Immigration; International Relations; Migration Patterns; Multicultural Education; Population Trends; *Public Policy; Trend Analysis

ABSTRACT

This executive summary examines the rapid changes occurring in economic markets and employment around the world. The report concludes that problems of low incomes, poor working conditions, and insecurity affecting many of the world's workers can be tackled effectively in ways that reduce poverty and regional inequality. Sound domestic policy and a supportive international environment will be necessary to reach those goals. This summary is divided into an overview and a highlights section. Numerous charts and graphs present the statistical information. (EH)

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World Development Report 1995

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WORKERS *in an* INTEGRATING WORLD

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Embargo

Not for publication or broadcast until 6 p.m. EDT (2300 GMT) Thursday, June 29, 1995

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EXECUTIVE SUMMARY

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World Development Report 1995

Workers *in an* Integrating World

EXECUTIVE SUMMARY

THE WORLD BANK
WASHINGTON, D.C.

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1818 H Street, N.W., Washington, D.C. 20433, U.S.A.

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First printing June 1995
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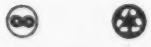

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Overview

DUONG IS A VIETNAMESE PEASANT FARMER who struggles to feed his family. He earns the equivalent of $10 a week for thirty-eight hours of work in the rice fields, but he works full-time only six months of the year—during the off-season he can earn very little. His wife and four children work with him in the fields, but the family can afford to send only the two youngest to school. Duong's eleven-year-old daughter stays at home to help with housework, while his thirteen-year-old son works as a street trader in town. By any standard Duong's family is living in poverty. Workers like Duong, laboring on family farms in low- and middle-income countries, account for about 40 percent of the world's labor force.

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Hoa is a young Vietnamese city dweller experiencing relative affluence for the first time. In Ho Chi Minh City she earns the equivalent of $30 a week working forty-eight hours in a garment factory—a joint venture with a French firm. She works hard for her living and spends many hours looking after her three children as well; her husband works as a janitor. But Hoa's family has several times the standard of living of Duong's and, by Vietnamese standards, is relatively well-off. There is every expectation that both she and her children will continue to have a vastly better standard of living than her parents had. Wage employees like Hoa, working in the formal sector in low- and middle-income countries, make up about 20 percent of the global labor force.

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Françoise is an immigrant in France of Vietnamese origin who works long hours as a waitress to make ends meet. She takes home the equivalent of $220 a week, after taxes and including tips, for fifty hours' work. By French standards she is poor. Legally, Françoise is a casual worker and so has no job security, but she is much better off in France than she would have been in Viet Nam. Her wage is almost eight times that earned by Hoa in Ho Chi Minh City. Françoise and other services sector workers in high-income countries account for about 9 percent of the global labor force.

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Jean-Paul is a fifty-year-old Frenchman whose employment prospects look bleak. For ten years he has worked in a garment factory in Toulouse, taking home the equivalent of $400 a week—twelve times the average wage in Viet Nam's garment industry. But next month he will lose his job when the factory closes. Unemployment benefits will partly shield him from the shock, but his chances of matching his old salary in a new job are slim. Frenchmen of Jean-Paul's age who lose their jobs are likely to stay unemployed for more than a year, and Jean-Paul is encouraging his son to work hard in school so he can go to college and study computer programming. Workers in industry in high-income countries, like Jean-Paul, make up just 4 percent of the world's labor force.

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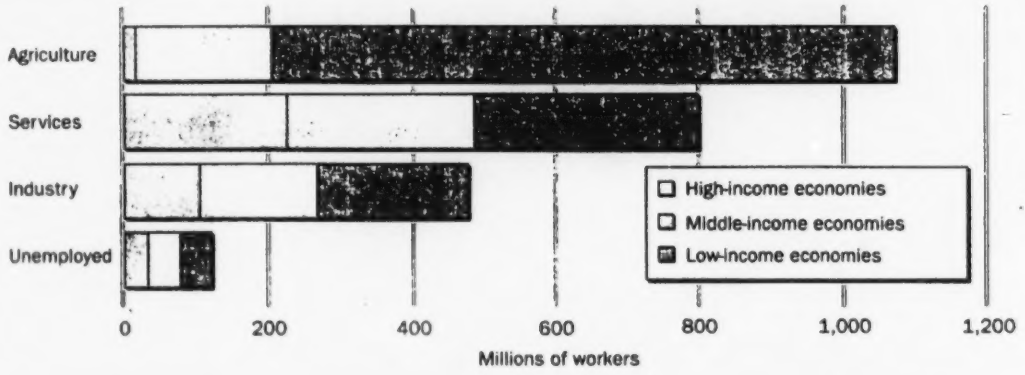
These four families—two living in Viet Nam, two in France—have vastly different standards of living and expectations for the future. Employment and wage prospects in Toulouse and Ho Chi Minh City are worlds apart, even when incomes are adjusted, as here, for differences in the cost of living. Françoise's poverty wage would clearly buy Hoa a vastly more affluent life-style. And much of the world's work force, like Duong, works outside the wage sector on family farms and in the informal sector, generally earning even lower labor incomes (Box 1). But the lives of urban workers in different parts of the world are increasingly intertwined. French consumers buy the product of Hoa's labor, and Jean-Paul believes it is Hoa's low wages that are taking his job, while immigrant workers like Françoise feel the brunt of Jean-Paul's anger. Meanwhile, Duong struggles to save so that his children can be educated and leave the countryside for the city, where foreign companies advertise new jobs at better wages.

These are revolutionary times in the global economy. The embrace of market-based development by many developing and former centrally planned economies, the opening of international markets, and great advances in the ease with which goods, capital, and ideas flow around the world are bringing new opportunities, as well as risks, to billions of people. In 1978 about a third of the world's work force lived in countries with centrally planned economies. At least another third lived in countries weakly linked to international interactions because of protective barriers to trade and investment. If recent trends continue, by the year 2000 fewer than 10 percent of workers may be living in such countries, largely disconnected from world markets.

But rapid change is never easy. In rich and poor countries alike there are fears of rising insecurity, as technological change, expanding international interactions, and the decline of traditional community structures seem to threaten jobs, wages, and support for the elderly. Nor have economic growth and rising integration solved the problem of world poverty and deprivation. Indeed, the numbers of the poor could rise still further as the world labor force grows from 2.5 billion today to a projected 3.7 billion in thirty years' time. The bulk of the more than a billion individuals living on a dollar or less a day depend, like Duong and his family,

Box 1 A world at work

For most households, poor and prosperous alike, income from work is the main determinant of their living conditions. Of the 2.5 billion people working in productive activities worldwide, over 1.4 billion live in poor countries, defined as those with annual income per capita below $695 in 1993. Another 660 million live in middle-income countries, and the remainder, some 380 million, live in high-income countries, with annual income per capita above $8,626 in 1993. There are vast differences in the patterns of employment across these three broad categories of countries. In poor countries 61 percent of the labor force works in agriculture, mainly tending family farms, while 22 percent work in the rural nonfarm and urban informal sectors, and 15 percent have wage contracts, mainly in urban industrial and service employment. In middle-income countries some 29 percent work on farms, 18 percent in rural and urban informal activities, and 46 percent in wage employment in industry and services. In rich countries the bulk of workers have jobs in the formal sector, with roughly 4 percent in agriculture, 27 percent in industry, and 60 percent in services. Some 120 million workers are unemployed worldwide. Workers in low-income countries dominate the world's agricultural work force but also, by their sheer numbers, account for nearly half of the world's industrial workers and about a third of its unemployed (see figure).



The world's labor force by sector and country income level. Data are projected for 1995 from a sample of countries in each income group. Source: World Bank staff estimates based on the following: EBRD 1994; ILO 1986 with ILO data updates; ILO, various years; and country sources.

on pitifully low returns to hard work. In many countries workers lack representation and work in unhealthy, dangerous, or demeaning conditions. Meanwhile 120 million or so are unemployed worldwide, and millions more have given up hope of finding work.

Yet fears that increased international trade and investment and less state intervention will hurt employment are mainly without basis. Workers have made great advances in many countries, especially those that have embraced these global trends, effectively engaging in international markets and avoiding excessive state intervention. Despite a doubling of the world's work force over the past three decades, the productivity of the world's median worker has doubled.

This Report concludes that problems of low incomes, poor working conditions, and insecurity affecting many of the world's workers *can* be effectively tackled in ways that reduce poverty and regional inequality. But to do so will require sound domestic policy and a supportive international environment. This means that governments must:

- pursue market-based growth paths that generate rapid growth in demand for labor, expansion in the skills of the work force, and rising productivity
- take advantage of new opportunities at the international level, by opening up to trade and attracting capital—but manage the dislocations that international changes sometimes bring
- construct a framework for labor policy that complements informal and rural labor markets, supports collective bargaining in the formal sector, provides safeguards for the vulnerable, and avoids biases that favor relatively well-off workers, and

- in those countries struggling with the transition to a more market-based and internationally integrated pattern of development, try to design the transition to make it as rapid as possible without excessive or permanent costs for labor.

Development strategy and workers

Manufacturing wages in a group of export-oriented East Asian economies rose 170 percent in real terms between 1970 and 1990, while manufacturing employment increased 400 percent. Wages of agricultural laborers in India rose 70 percent. But meanwhile industrial wages grew by only 12 percent in a group of Latin American countries and fell in many Sub-Saharan African countries.

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Economic growth is good for workers. This has long been true for those living in what are now the world's rich countries, and it has been spectacularly true for the newly industrializing economies (NIEs) of East Asia over the past few decades. Growth has reduced poverty through rising employment, increased labor productivity, and higher real wages (Figure 1). Growth also tends to reduce poverty and inequality, including inequality between men and women. For today's low- and middle-income countries, the fear that growth will primarily benefit capital, create few jobs, and fail to raise wages is unfounded. Viet Nam's workers are now some of the poorest in the world. If their country follows the path of other East Asian successes, they could enjoy a doubling of their labor incomes in a decade or so.

Market-based development, which encourages firms and workers to invest in physical capital, new technologies, and skills, is the best way to deliver growth and rising living standards for workers. Countries that have attempted to help workers by biasing investment against agriculture and toward industry, protecting the jobs of a favored few industrial workers against international competition, dictating wage increases, or creating unneeded jobs in the public sector have failed over the long run—whether in Latin America, the former Soviet Union, or elsewhere. What any nation's work force needs most is stronger demand for its services, together with high levels of investment in schooling, training, roads, and machines. This has worked best where, as in East Asia, governments made good use of international markets, especially for expanding exports, and gave strong support to family farming. The public sectors in these economies supported the efficient functioning of markets by providing a stable macroeconomic environment

Industrial wages have soared in East Asia but grown slowly or fallen elsewhere.

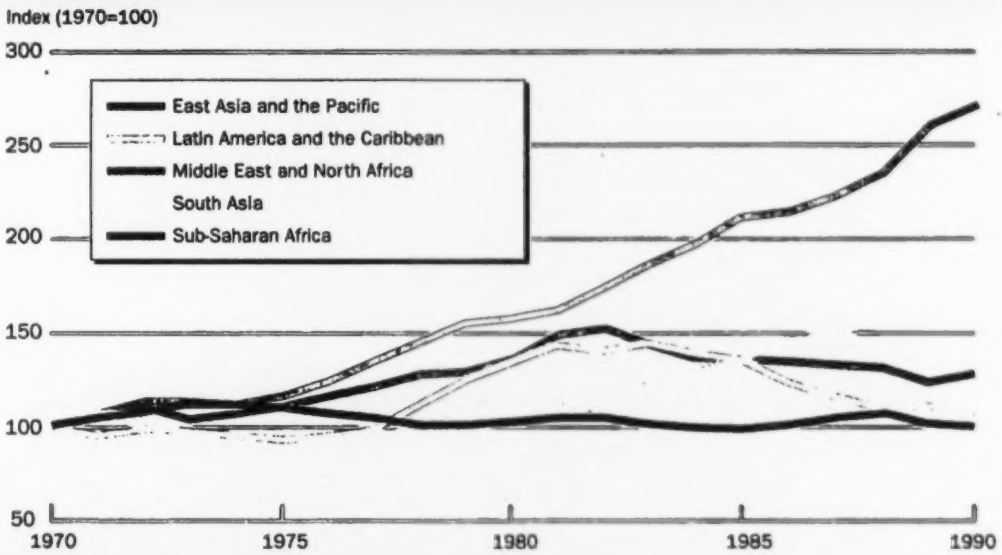

Figure 1 Real wages in manufacturing. Data are unweighted averages for a sample of countries in each region. Source: Wage data from UNIDO, adjusted for inflation.

for saving and investment and supporting the expansion of economic infrastructure and social services.

Investment in the skills, health, and nutrition of workers is key both to their welfare and to economic success. But some countries have performed badly despite investing in schooling. Investment—in physical or in human capital—does not guarantee growth (Figure 2). The former centrally planned economies of Europe and Central Asia represent an extreme case of high investment that led first to stagnating and eventually to collapsing labor incomes.

Market-based, labor-demanding growth also tends to reduce inequality—within countries and across regions—provided governments ensure broad-based investment in the capabilities of people and the complementary assets that determine their opportunities. It is true that the centrally planned economies achieved high degrees of equality and now generally face some rise in inequality. But the East Asian strategy—of supporting family farms, avoiding dualistic labor markets, and encouraging vigorous growth in formal employment through exporting—achieved rapid growth with declining poverty and lower inequality. By contrast, most Latin American countries have long had highly unequal income distributions, and most still do, with landholdings heavily concentrated in the hands of a few and growth paths biased against labor.

Inequalities between men and women, between ethnic groups, and between geographic regions are particularly tenacious. Women often work more but get paid less than men, because of a heavier burden of work in the home, less education, or weaker access to better paying jobs. Indian scheduled castes are confined to low-paying work. Poor regions, such as the state of Chiapas in Mexico, usually stay relatively poor even when the economy as a whole expands. Some of these groups do gain from development (in particular, wage differentials between men and women usually decline), but others miss out. Helping those left out is one of the toughest problems for policy, for poor and rich countries alike. From a hard-headed economic perspective, investing in such people may seem a poor risk, because many are old, socially ill adapted to work, or stuck in backward regions, but concern for their misery and for social cohesion demands that policy reach out to them. The longer people are left behind, the harder it becomes to break self-perpetuating intergenerational cycles of poverty.

Capital per worker has risen rapidly in all regions, while output growth has been slower.

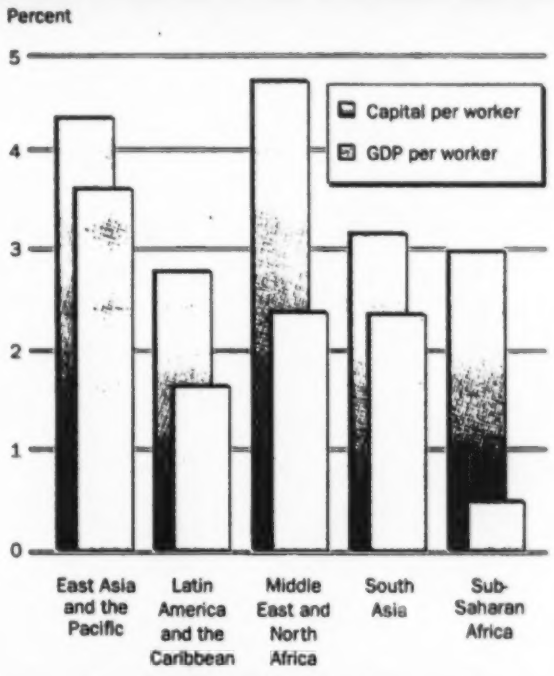

Figure 2 Growth rates of GDP and capital per worker. Data are annual averages for 1960-90. Source: ILO 1986 with ILO data updates; Nehru and Dhareshwar 1991; World Bank data.

Employment in an integrating world

The share of manufactures in developing country exports rose from 20 percent to 60 percent between 1960 and 1990. Low- and middle-income countries already account for almost 80 percent of the world's industrial work force.

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International flows of goods, services, capital, and people bring new opportunities for most workers. Where exports have risen fast, so have real wages—by an average of 3 percent per year (Figure 3). Foreign direct investment, which now accounts for 30 percent of capital flows to low- and middle-income economies, is creating many new jobs: 60 percent of worldwide growth in the payrolls of multinational corporations occurred in these countries between 1985 and 1992. International migration, although so far less of a force for change than either trade or investment, has usually brought income gains to those who move, higher remittances to those who stay, and increased production of goods and services in the host countries.

Many workers, especially in the farms, factories, and services sectors of Asia, have seen great gains from international engagement. But for some it feels as though international integration has increased their vulnerability to volatile international conditions; others—especially those living in Sub-Saharan Africa—remain largely disconnected from international market opportunities. And within in-

dustrial countries there is a small but vocal minority who fear they will lose from the introduction of new technologies, the growth of international trade, and movements of capital and people across national boundaries.

Some workers will indeed be hurt if they are stuck in declining activities and lack the flexibility to change. However, international trade, immigration, and capital flows account for only a small part of the problem faced by laid-off workers in France, or by unskilled men in the United States who have seen their wages decline for decades, even as the wages of college graduates continue to rise. More important, restricting trade or capital is not an effective way of dealing with this problem—a better strategy for any country is to improve the skills of its people or ease their transition to new jobs, while staying engaged with the world economy. International migration, in contrast, is always controlled to some degree. To the extent this is done to reduce conflict while preserving the basic rights of migrants, it can actually help sustain moderate levels of international migration.

In any case, capital now crosses borders ever more rapidly despite the best efforts of some national governments to control it. But far from rendering national governments impotent, international capital movements intensify the impact of domestic policy on labor outcomes, richly rewarding policy when it is sound but punishing it hard when it is unsound. Faster and broader capital flows and greater openness in trade are making domestic policy more important for workers. Success breeds success, because good macroeconomic and structural policies are key to attracting or keeping capital and achieving the productivity necessary to create competitive jobs at rising wages. But when policies fail, portfolio investment and local savings leave the scene, and labor suffers the consequences.

Wages rose in countries whose export orientation increased.

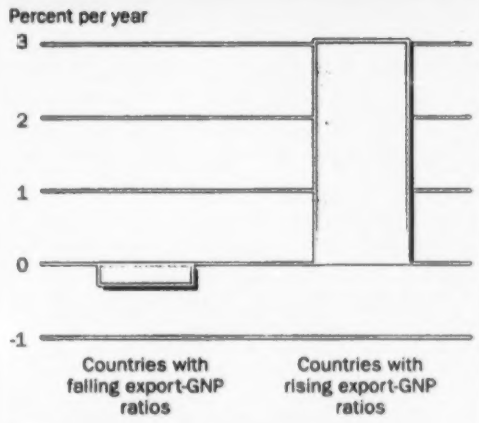

Figure 3 Real wage growth in manufacturing and export orientation. Data are annual averages for 1970-90 for a sample of thirty-seven countries with falling and thirty-two countries with rising export-GNP ratios. Source: UNIDO and World Bank data.

Labor policy

Although 90 percent of developing countries have some form of social security system, at best it covers only workers in the formal sector, who make up just 15 percent of the labor force in low-income countries, 45 percent in middle-income countries.

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Labor policies in low- and middle-income countries do not affect the majority of workers who, like Duong in Viet Nam, work in the rural or the urban informal sector. These are the poorest workers—often earning less than half what a formal sector employee earns—and therefore the most in need of protection. Moreover, labor regulations are often not enforced in many firms that are normally considered part of the modern sector (see Figure 11.2 in Chapter 11).

Does this mean that governments in low- and middle-income countries should not bother to intervene in the labor market, because their policies will not reach those who most need help and their regulations will not be enforced? The answer is no. Public action can complement community arrangements and enhance the welfare of informal workers by improving the environment in which they operate. In the formal sector public action is sometimes needed to improve market outcomes, enhance equity, and protect vulnerable workers.

Informal and rural workers often must work under more hazardous and insecure conditions than their formal sector counterparts. Improved working conditions are best achieved not by legislation but by direct public action affecting the working environment and the health of workers, in areas such as provision of water and sanitation, roads and drainage in and near cities, and environmental health. The eradication of onchocerciasis (river blindness) in large parts of West Africa brought immense reductions in human suffering and large increases in labor supply. Informal income security arrangements can be complemented by public transfer programs: public works are usually the best transfer method for able-bodied men and women. In India's Maharashtra State, for many years rural workers were guaranteed work in public works schemes at the local wage rate.

For the formal sector, collective bargaining between firms and independent unions is an effective way to determine wages and working conditions. Yet governments have often repressed unions, as in the Republic of Korea until

the 1980s, or politicized the bargaining process, as in Bangladesh today. Sometimes, as in Indonesia, they have responded to pressures for independent unions by directly raising standards, such as minimum wages, potentially at the cost of employment. Governments do need to establish the rules for labor-management negotiations, spelling out the rights of workers and firms, establishing dispute resolution mechanisms, and promulgating basic health and safety regulations, which unions can monitor. Where unions cover only a small proportion of the work force, as they do in most low- and middle-income countries, decentralized bargaining under conditions of competitive output markets produces the best results. This precept has long applied in Japan and Hong Kong and applies now in Chile and Korea.

Direct government intervention makes sense in dealing with child labor and in other cases where the market may produce adverse outcomes, such as discrimination against women. But legislation alone has been ineffective. It needs to be complemented by other policies such as low-cost education and better access for women to formal sector jobs. India has sound child labor laws, yet millions of children are working, often in hazardous conditions. Child labor is partly a reflection of poverty. But it is not necessary to wait for a reduction in the poverty rate to tackle the most life-threatening and demeaning aspects of child labor. In the town of Pagsanjan in the Philippines, civic action dramatically reduced child prostitution. In Brazil, India, and the Philippines, local action, with public support, is improving the health status of working children and giving them greater educational opportunities.

Governments also have to set policy for public employment. Many public sector workers work hard and productively. But in many low- and middle-income countries, notably in Sub-Saharan Africa and the Middle East, the quality of public service has suffered as its ethos has been destroyed by a combination of overstaffing, inadequate pay, and weak governance. Restoring levels of pay and reducing the number of public workers are often essential reforms, to be combined with improvements in the recruitment, promotion, and accountability of civil servants, teachers, nurses, and policymakers. The redefinition of the role of the state makes it all the more important that governments be effective in those areas where they do stay involved.

If support for the rights of workers to form unions and to bargain collectively and support for the reduction of child labor make sense in a national context, should these principles be linked to international trade agreements, with sanctions for their violation? Advocates of linkage make a distinction between "core" standards, which for many would be akin to basic rights and do not directly raise labor costs, and other standards, such as minimum wages, that are a direct function of the level of development. Such a division is sound, and there is a case for international concern over core standards. However, it is best to keep multilateral trade agreements confined to directly trade-related issues, to prevent protectionist interests from misusing such links to reduce the trade that workers in low- and middle-income countries need if their incomes are to rise. As the history of trade reform illustrates, even well-intentioned and rationally designed discretionary trade measures can be captured by protectionist interests.

Managing major changes

Of the world's 2.5 billion workers, 1.4 billion live in countries struggling with transitions from state interventionism, high degrees of trade protection, or central planning.

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Many developing and transitional economies are struggling with one or both of two major changes in their development strategies: from protection to greater integration with international markets, and from massive state intervention to a market economy in which the state plays a smaller role in allocating resources. These changes can have a powerful labor market dimension. Their key characteristic is an acceleration in the destruction of unviable jobs and the creation of new ones. The process is often accompanied by macroeconomic decline and by a sharp drop in the demand for labor nationwide. In the short term, workers often feel the pain as real wages fall, unemployment rises, and employment shifts into informal activities. In Argentina, Bolivia, Chile, and Mexico, real wages fell by a third or more before recovering. In Bulgaria, the Czech Republic, Poland, Romania, and Russia, real wages fell between 18 and 40 percent in the first year of transition; in some countries, including Bulgaria and Poland, unemployment rose from negligible levels to 15 percent or more. But in Ghana and China wages rose during the adjustment process, and unemployment remained low.

Economic reform can create opportunities for some workers but have wrenching effects on others. Even the best-designed reforms produce gainers and losers in the short term. Moving the economy as quickly as possible to the new growth path is key to minimizing the pain and social costs of adjustment; macroeconomic stability and credibility of the overall reform package are therefore critical. Countries such as Chile and Estonia have done relatively well on these scores and have brought about—or are bringing about—recoveries in wages and employment. In contrast, Belarus and Venezuela have faltered and suffered declines or stagnation in wages and employment (Figure 4).

Is a strategy of gradual transition better for workers? Where initial conditions allow gradual job destruction without jeopardizing the reform that is needed to generate new jobs, gradualism makes sense. China exemplifies the truth of this proposition, but that country enjoyed a large margin for job expansion, first in agriculture and then in

Wages fall where the transition involves macroeconomic decline, but recover more quickly where reform is more credible.

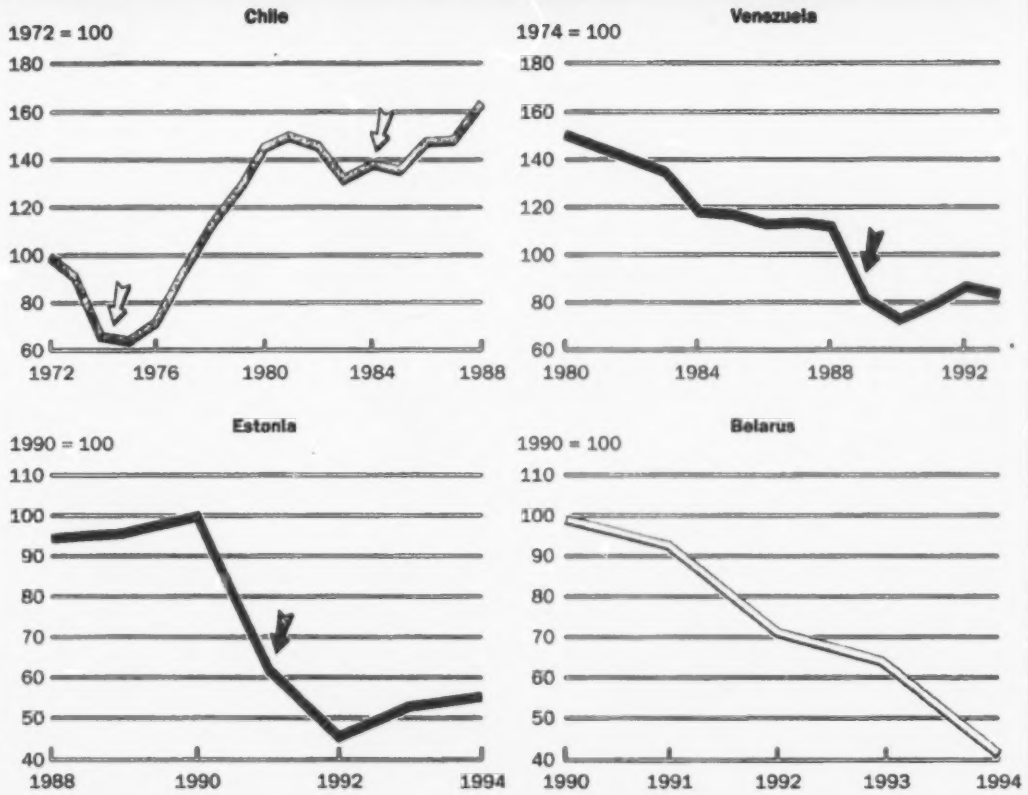

Figure 4 Real wage income per capita in four countries undergoing comprehensive reforms. Arrows indicate implementation of major reforms. Belarus has implemented partial reforms over the period since 1991. Source: World Bank staff estimates.

quasi-private industry, which could help finance the cost of the relatively inefficient state sector. In most other countries either macroeconomic imbalance or the costs of inefficient sectors make gradualism a nonstarter.

Microeconomic policies that affect the mobility and incomes of workers can play a major role both in influencing the overall pace of change and in safeguarding the welfare of workers over the transitional period. Good policy will generally involve action in three areas: enhancing mobility, reducing income insecurity, and equipping workers for change. These are highly complementary. Increased mobility will often involve measures to allow job destruction, including large layoffs from the public sector, to run its course. In many countries measures to separate entitlement to social services from employment and to liberalize housing markets are required. But it is also important to consider the needs of those at risk of steep income declines. Income transfers can play an important role here. Retraining can help certain groups of workers but is unlikely to provide a panacea.

Divergence or inclusion?

About 99 percent of the 1 billion or so workers projected to join the world's labor force over the next thirty years will live in what are today's low- and middle-income countries. Some groups of relatively poor workers have experienced large gains in the past thirty years—especially in Asia. But there is no worldwide trend toward convergence between

rich and poor workers. Indeed, there are risks that workers in poorer countries will fall further behind, as lower investment and educational attainment widen disparities. Some workers, especially in Sub-Saharan Africa, could become increasingly marginalized. And those left out of the general prosperity in countries that are enjoying growth could suffer permanent losses, setting in motion intergenerational cycles of neglect.

There is a substantial risk that inequality between rich and poor will grow over the coming decades, while poverty deepens. But it need not be so if countries choose the right international and domestic policies. Preserving open trading relations, preventing rich country fiscal deficits from crowding out investment elsewhere, and delivering high and stable growth in the high-income countries will maintain global demand and help head off any protectionist pressures in rich countries that might result from persistently high unemployment. Of even greater importance are domestic policies that promotes labor-demanding growth—and sound labor policy.

Governments and workers are adjusting to a changing world. The legacy of the past can make change difficult or frightening. Yet realization of a new world of work, in which all groups of workers are included in a dynamic of rising incomes, better working conditions, and enhanced job security, is fundamentally a question of sound choices--in the international and the domestic realm. The right choices involve using markets to create opportunities, taking care of those who are vulnerable or left out, and providing workers with the conditions to make their job choices freely, bargain over their conditions of work, and take advantage of better educational opportunities for their children. Duong, Hoa, Françoise, and Jean-Paul—and millions of workers like them—all have a powerful interest in good policy. They and their families have to live with the consequences.

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Highlights of World Development Report 1995

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Earnings differ tremendously across the international wage hierarchy.

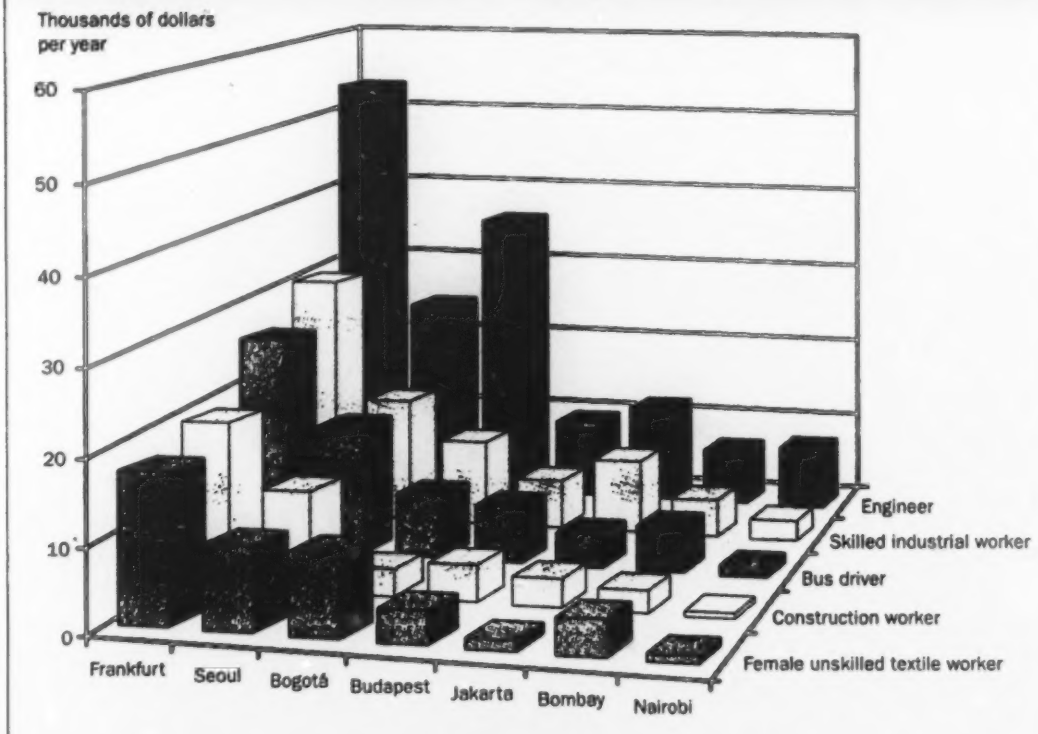

Figure 1.2 Earnings in selected occupations in seven cities. Earnings are adjusted to reflect purchasing power parity. Data are for 1994. Source: Union Bank of Switzerland 1994.

HOW MUCH BETTER PAID are workers in one country than their counterparts in another? Even after adjusting for differences in the purchasing power of currencies, an engineer in Frankfurt, Germany, earns about fifty-six times the wages of an unskilled female textile worker in Nairobi, Kenya, who in turn earns several times the wages of rural workers in her country. Part of the gap between the highest- and the lowest-paid is due to differences in pay for different jobs within countries: engineers, for example, earn more than unskilled textile workers in every country. But part is also due to international differences in returns to similar work: engineers in countries with high GDPs, such as Germany, bring home higher wages than do engineers of equal skill in Hungary or India.

These differences in pay are largely due to differences in labor productivity: the quantity and value of workers' contribution to output. With development, workers become more productive in the activities in which they specialize: their skills advance, the amount of capital supporting each worker increases, and the organization of their work improves. Workers also gain from economy-wide growth in productivity that leads to higher wages as labor becomes relatively more scarce. The Report discusses how the pattern of development can speed or slow this process.

Long-term economic growth is strongly correlated with wage growth in agriculture and manufacturing.

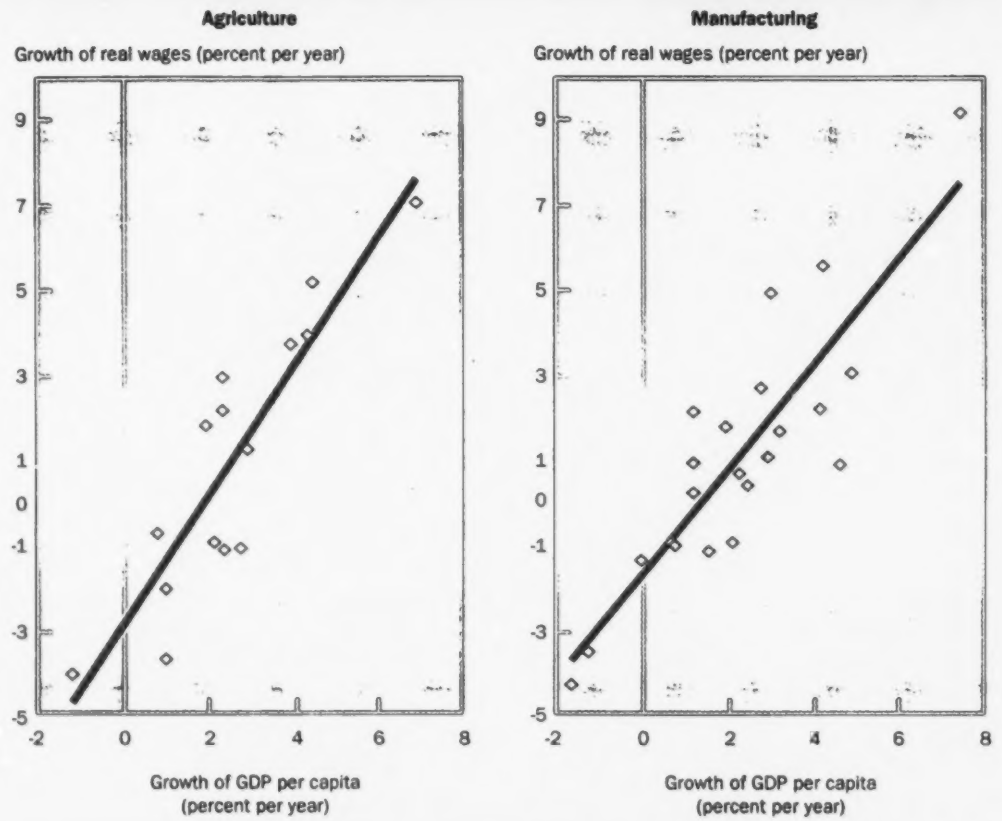

Figure 2.2 Growth rates of GDP per capita and real wages in agriculture and manufacturing. The sample consists of twenty-two low- and middle-income countries over a period from the 1960s to the 1990s. Actual years vary by country. Source: World Bank data; UNIDO data.

LONG-TERM ECONOMIC GROWTH is good for workers. In low- and middle-income countries, growth in the economy is strongly correlated with wage growth in both agriculture and manufacturing. Rising GDP means rising value added per worker, and if value added per worker is rising, wages are likely to rise as well. The Report explores the conditions under which low- and middle-income economies can embark on a path of sustained and self-reinforcing growth together with rising wages.

THE INTEGRATION OF NATIONAL and regional markets is driven by falling costs of transportation and communications, which are bringing together goods, capital, people, and ideas faster and more cheaply than at any time in history.

Trade has nearly doubled as a share of world GDP since 1970. Industries directly or indirectly related to exports already employ about one-sixth of the combined work force of the developing and transitional countries.

Annual foreign *capital flows* have risen to roughly 9 percent of the GDPs of developing and transitional countries. Had these countries been able to retain all the capital inflows they have received over the years, they would now amount to some 11 percent of their total capital stocks—but this outflow represents only 2 percent of the capital stocks of the industrial countries.

Migration is the laggard in this story: flows of migrants into and out of developing and transitional countries, most of them in search of work, are no greater today than in 1970. Persons living outside their country of origin make up only 2 to 3 percent of the combined populations of the low- and middle-income countries, and less than 1 percent of that of the industrial countries.

All these forms of integration are creating a global labor market where wage and employment decisions in one country are increasingly influenced by conditions and decisions in others. The Report assesses the consequences of this growing interdependence for workers, many of whom, rightly or wrongly, see increased exposure to the global economy as a threat to their livelihoods.

Trade and capital flows have grown quickly, but labor mobility has fallen.

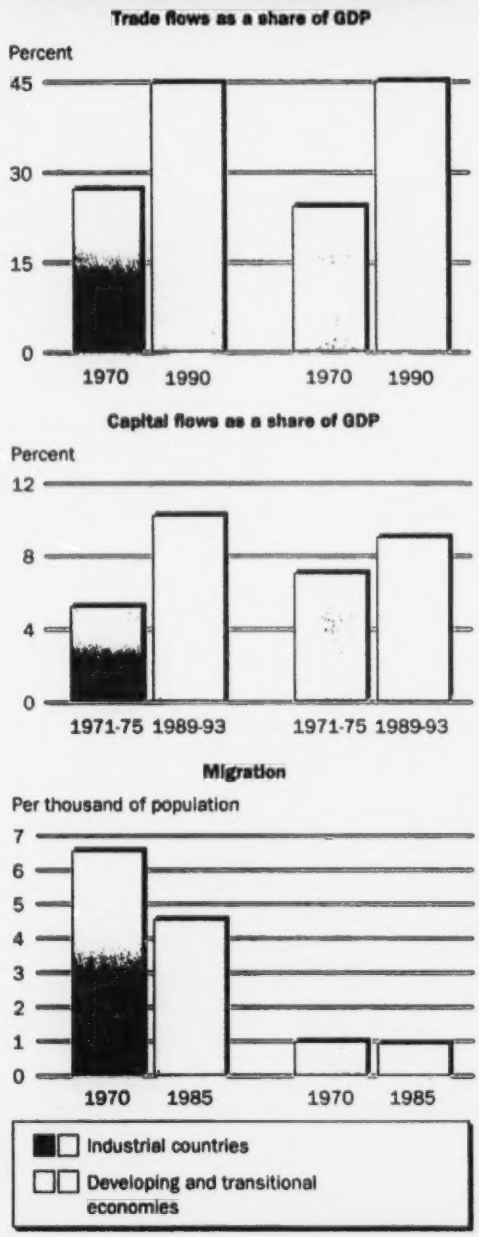

Figure 7.2 Trade, capital flows, and migration in industrial, developing, and transitional countries. Data are inflows plus outflows for all the countries in each group. Source: Migration data from Zlotnik 1993; all other data from the World Bank.

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Box 6.1 Do lower wages for women indicate discrimination?

Not all of the observed gender wage gap necessarily represents discrimination in the labor market. A lower wage for women in a given economy may reflect their lower productivity in wage employment. Women in developing countries often have less schooling and on-the-job experience than men, and estimates of wage discrimination need to account for such factors. One method is to estimate returns to certain attributes and characteristics, such as schooling, experience, and occupation, separately for males and females, and then decompose the observed wage differential into two parts. The first shows the component of the wage differential due to women actually having "worse" attributes and characteristics than men, whereas the second addresses what women would be earning if they had the *same* attributes as the men in the economy. This second measure points to discrimination, if women's earnings are still less than those of men.

The most striking examples of the use of this methodology come from countries such as Ecuador, Jamaica, and the Philippines. Women in those countries actually have more education and experience, on average, than men but get paid between 20 and 30 percent less. In these countries, women would actually have higher wages than men were their contributions valued equally by the labor market.

The decomposition analysis has some problems: for example, using "years since school" as a measure of experience may misstate the nature of women's experience, or the use of broad occupational categories may obscure a tendency for women to hold lower status jobs than men within the same occupation. Nevertheless, results from a wide range of developing countries make it clear that labor markets do discriminate against women workers.

Women workers tend to be concentrated in the informal sector.

Table 11.3 Shares of men and women workers in nonwage employment
(percentage of total)

Country	Year	Men	Women
Bolivia	1991	42	70
Cape Verde	1990	42	54
Egypt	1989	46	74
El Salvador	1991	28	48
Ghana	1989	69	92
Indonesia	1989	70	79
Korea, Rep. of	1991	38	43
Pakistan	1992	66	77
Peru	1991	39	55
Tanzania	1988	84	95
Thailand	1989	71	76
Tunisia	1989	36	51
Turkey	1991	55	80

Source: ILO, various years; World Bank data.

WOMEN GENERALLY WORK fewer hours than men in market-related activities, but longer hours overall, devoting much more time than men to childrearing, household maintenance, and, in many areas, fuel and water gathering. When women do work for wages, their wages tend to be lower than for men, in part because they are disproportionately employed in the informal sector and in part because they tend to have less education than men.

The Report discusses policies that can improve the welfare of working women by improving their education and their position in the labor market.

Unionized firms in Malaysia stress the importance of raising productivity.

Table 12.1 Effect of unionization on productivity-enhancing initiatives by firms in Malaysia
(percentage of firms taking action indicated)

Type of firm	Implementation of job rotation policy[a]	Reorganization of work	Upgrading of technology	Extension of product range
Plant union	30	29	40	20
Industrial union	31	32	37	26
Nonunion	22	18	26	20

a. Firms with more than 1,000 workers only.
Source: Standing 1992.

Trade union membership rarely includes a majority of workers.

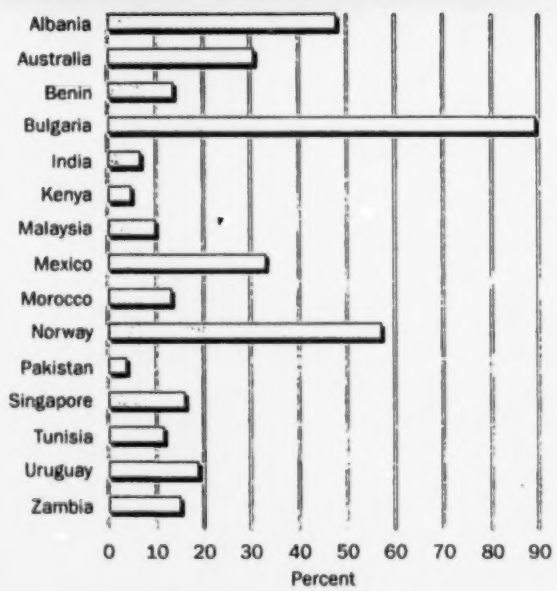

Figure 12.1 Union membership as a share of the labor force in selected countries. Years vary by country from 1986 to 1995. Source: World Bank data.

WHERE UNION MEMBERSHIP is low, as it is in many developing countries with small formal sectors, the benefits of unionization—which usually include higher wages, and often better working conditions as well—are enjoyed by a relative few. In those developing countries where the union wage premium has been studied, unionized workers made from 10 to 30 percent more than their nonunionized counterparts. Where unions also have some monopoly power, these benefits to the minority come at the expense of the majority of consumers, who must pay higher prices for the goods and services the unionized firms produce. And the unionized workers' higher wages lead their employers to hire fewer workers, thus increasing the supply of labor to the nonunion sector and depressing employment there.

However, the presence of a union can enhance productivity and efficiency in the workplace. Workers protected by unions may be more confident that management will not appropriate all the gains from any contribution they make toward more efficient workplace organization.

The Report examines the positive and negative effects of labor unions and how the legal and market framework within which they operate can maximize their positive influence.

Wage gains for unskilled workers are dramatically higher in the convergent scenario, reducing inequality.

Table 18.3 Projections of wages of skilled and unskilled workers by region
(percentage change from 1994 to 2010)

	Divergent scenario		Convergent scenario	
Region	**Unskilled**	**Skilled**	**Unskilled**	**Skilled**
China[a]	19	35	65	72
East Asia	41	54	63	81
Former CMEA	3	29	61	74
Latin America	–3	45	58	62
Middle East and North Africa	–2	27	63	39
South Asia	15	49	81	56
Sub-Saharan Africa	6	9	44	49
OECD[b]	15	47	47	45

a. Includes Hong Kong.
b. Includes Australia, Canada, European Union, Japan, New Zealand, and United States only.
Source: World Bank staff estimates.

WILL THE TWENTY-FIRST CENTURY see a widening of the already enormous gap in the returns to labor between the richest and the poorest countries? Or will the turnabout in development strategy on the part of so many formerly closed and centrally planned economies contribute to a convergence of incomes?

The Report presents projections generated by a global economic model for 2010 under two contrasting scenarios. The first is a "divergent" scenario in which investment and educational attainment in all major regions remain anemic, labor productivity rises only weakly, and countries fail to realize the Uruguay Round's promise of reduced international trade barriers. The second is a more optimistic "convergent" scenario in which investment, schooling, and hence labor productivity rise in all regions—thanks in part to sound policy choices—and barriers to international transactions fall.

The convergent scenario depicts an international distribution of wages in which poorer groups of workers begin to catch up with wealthier ones: the ratio between the wages of the poorest and richest groups falls from about sixty to one now to about fifty to one in 2010, whereas in the divergent scenario it increases to seventy to one. But it is clear that international income differences, which have been widening since the last century, will not soon disappear even under the more optimistic scenario. The Report fleshes out these general scenarios with a region-by-region assessment of the prospects for change.

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THROUGHOUT THE WORLD, most people spend most of their lives working. Even among the world's poorest, only a relative few are idle; the great mass of the poor work hard for little pay. Unemployment afflicts more than a hundred million people worldwide and is a matter of major concern in rich and poor countries alike. But hundreds of millions more, living mainly in the world's low- and middle-income countries, remain in poverty not for lack of work but for lack of skills, or for lack of the kind of economic environment in which they can use their skills to work more productively for higher pay.

It is mainly through their work that most households are swept up in the profound changes that are interweaving their national and regional economies into a single global economy. These changes—the embrace of international markets, the abandonment of central planning—portend enormous opportunities for growth. But how do they affect people *as workers*—their wages, the risks they face, the conditions under which they work—especially during what for many countries, and many households, is a painful transitional period?

This executive summary reproduces the overview and some highlights from *World Development Report.* The Report assesses what a more market-driven and integrated world means for workers. It asks which development strategies best address workers' needs, and what domestic labor market policies can do to establish a more equitable distribution of income, greater job security, and higher workplace standards, while preserving and indeed enhancing the efficiency of labor markets.

The Report concludes that global integration holds out the prospect of tremendous future gains for the world's work force—but no guarantees. Sound domestic and international policies are indispensable for realizing the promise of a prosperous, integrated global workplace. Policies that rely on markets while avoiding or correcting market failures, that invest in people, that provide a supportive environment for family farms as well as emerging industrial and services sectors—all these are good for workers. Governments continue to exercise important functions: building and maintaining the social framework within which workers, unions, and firms interact to set wages and working conditions; supporting workers who are hurt when industries or whole economies suffer major shocks; and defending the rights of the most vulnerable workers, whether they be child laborers victimized by exploitation, or women or ethnic minorities suffering from discrimination. In those economies that are less prepared to face global competition—in particular, those emerging from central planning—public action has a particularly important role in promoting labor mobility, easing the cost of transition, and reaching those left out.

The full Report includes the World Development Indicators, which offer comprehensive, current data on social and economic development in more than 200 countries and territories. The Indicators are also available on diskette. An Appendix to the Report provides additional statistics on labor.

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